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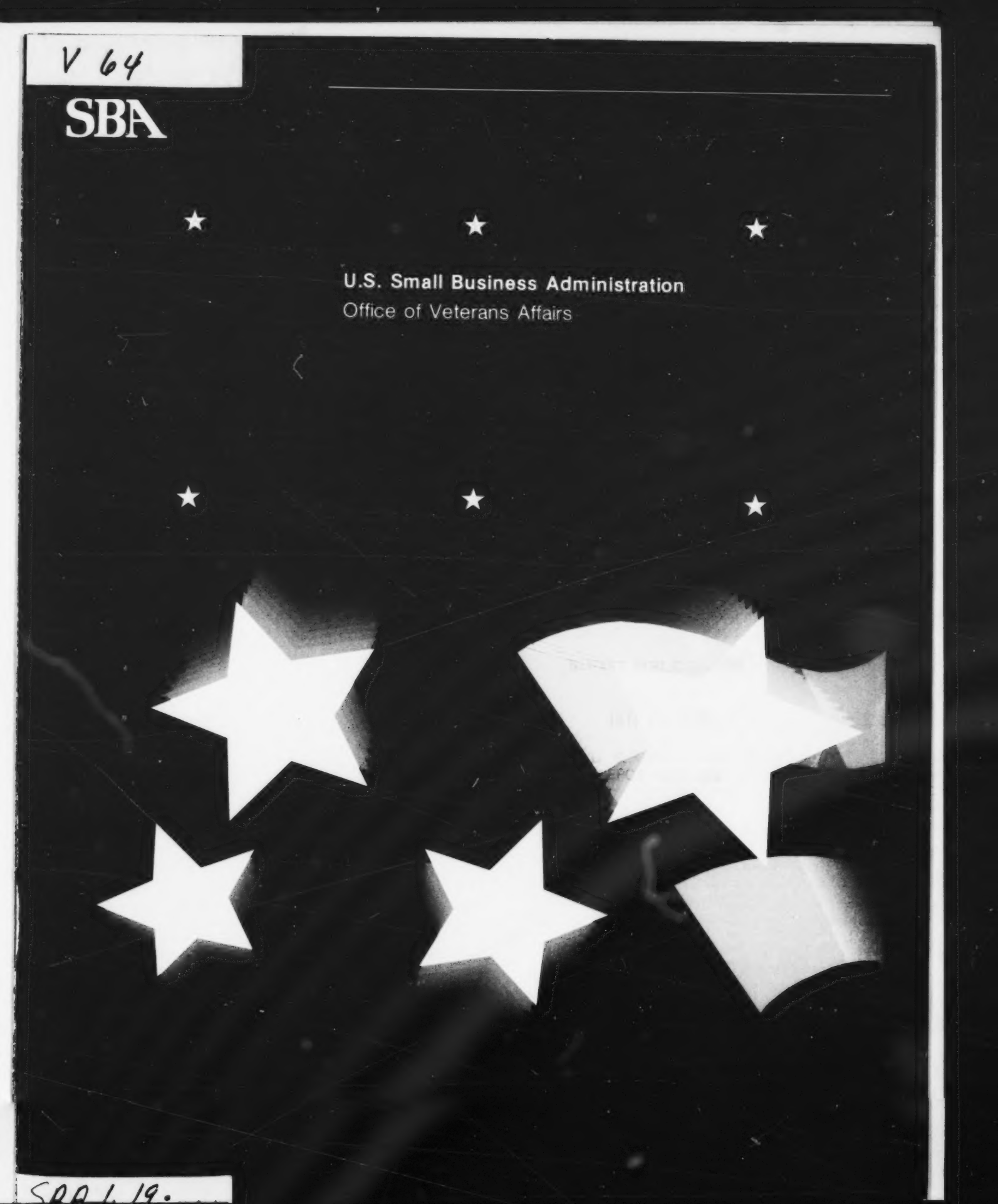
SBA

U.S. Small Business Administration
Office of Veterans Affairs



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The Business of SBA

The U.S. Small Business Administration (SBA) is a small, independent Federal agency created by Congress in 1953 to assist, counsel, and champion the millions of American small businesses which are the backbone of this country's competitive free enterprise economy.

The mission of SBA, simply put, is to help people get into business and to stay in business. To do this, SBA acts as an advocate for small business. At the direction of Congress, the Agency espouses the cause of small business, explains its role and contributions to our society and economy, and advocates programs and policies that help small business prosper. SBA performs this advocacy role in close coordination with other Federal agencies, with Congress, and with financial, educational, professional, and trade institutions and associations.

In addition to its advocacy role, the Agency provides the small business community with financial assistance, management counseling, and business training. SBA also helps small firms obtain a fair share of government contracts.

The Agency has about 4,000 permanent employees and more than 100 offices in all parts of the Nation. To provide efficient service, SBA has delegated decision making authority to its field offices in most of the program areas.

What is a Small Business

SBA generally defines a small business as one which is independently owned and operated and is not dominant in its field. To be eligible for SBA loans and other assistance, a business must fall within a size standard set by the Agency. This standard is based on annual receipts, assets, net worth, and/or number of employees, depending on type of industry and SBA program. Specific size standard information is available through your nearest SBA office Most businesses are considered small by SBA standards.

Where to Obtain Help

In each local SBA office, there is a person designated as the **Veterans Affairs Officer** (VAO). This person should be your initial contact and resource person for information on SBA programs. You can contact the VAO by calling the number listed in the telephone directory white pages under "U.S. Government-Small Business Administration." Ask for the name and extension of the VAO if not specifically listed.

There is an Office of Veterans Affairs under the Associate Deputy Administrator for Special Programs, Washington, DC 20416. This office does not make loans or provide counseling, but was created to monitor SBA's assistance to veterans and address matters of general interest. The staff works closely with national veteran service organizations and other Federal agencies in developing and monitoring the delivery of business related services to veterans.

Veterans' Special Consideration

Veterans of the Armed Forces have fought to maintain the freedom that has made our country strong. SBA wants veterans to receive the benefits of all of the programs the Agency provides. To ensure this, the Administrator announced in a policy statement in May, 1982 that veterans will be given "special consideration" in Agency programs. Special consideration involves designing management training programs specifically for veterans, processing veterans' loan applications before non-veterans' applications sumbitted that same day, monitoring loan and procurement activities to measure veteran participation, coordinating training and counseling activities for veterans with other Agency departments, and allocating a portion of Agency direct loan funds for veterans. So if you are a veteran and are interested in SBA services, call, write, or visit the VAO in your nearest SBA office.

Business Development

No one should start a business before attending an SBA pre-business workshop. Most SBA offices conduct these workshops on a recurring basis. Periodically, these workshops are conducted especially for veterans. The VAO can schedule you for a convenient location and time.

The SBA also is developing special business training conferences for veterans to be held across the country. These will be announced in the local media and through national veterans service organization publications.

Your local SBA office can help you with many of your specific business management problems. Each District Office has business development officers who can direct you to organizations affiliated with SBA which provide indepth management training and counseling to small business owners.

The Service Corps of Retired Executives (SCORE), for example, can provide one-on-one management counseling for the veteran. The Small Business Development Center (SBDC) program, a nationwide university-based counseling and training operation, can provide long-term

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management assistance to small businesses. SBA also offers over 130 different small business management pamphlets free for the asking. Contact your VAO for information on SBA's management assistance programs.

Financial Assistance

The Congress has authorized SBA to make loans for business purposes. However, before SBA can consider a loan application, the applicant must show that funding is not otherwise available on reasonable terms. A letter of declination from the bank is required. Remember, these are loans, not grants, and the applicant must demonstrate that the loan can be repaid from the earnings of the business. Veterans who meet SBA loan criteria are placed ahead of non-veterans who apply on the same day. However, if your application is incomplete, you could lose this special consideration.

All veterans must meet the same SBA standard loan criteria as any other applicant. They must show that funds are not otherwise available, show an ability to repay the loan from the earnings of the business, have sufficient equity in the business, and offer adequate collateral. All veteran owned businesses must also meet Agency size standards and not be involved with gambling, speculation, lending or relending, the media except TV and radio, or real property sale or investment.

For eligible applicants, SBA offers a broad range of loan programs. Most of these loans are made by financial institutions and are guaranteed by SBA. Regular business loans are available to veterans on a special consideration basis. These loans usually do not exceed $350,000, have a maturity of up to 25 years, and have a competitive interest rate based on the New York City prime rate.

Congress has authorized a special fund to enable SBA to make direct loans to Vietnam era and disabled veterans. To be eligible, a veteran has to have served on active duty for more than 180 days, any part of which was duty between August 5, 1964 and May 7, 1975 or have a Veterans Administration (VA) rated disability of at least 30% or be entitled to disability compensation from the VA.

Veterans who apply for direct loans under this special Vietnam era and disabled veterans program must meet the lending criteria for regular business loans. The ceiling for a direct loan is $150,000 and no direct loan can be made if a guaranteed loan or other credit is available. The interest rate on these direct loans is the same as for regular business loans. An ability to repay, collateral, and other guarantees are required of the veteran applicant.

SBA also administers a Handicapped Assistance Loan Program. Handicapped veterans compete on an equal basis with non-veteran handicapped persons for these loans which have very low interest rates.

Small Business Investment Companies (SBIC's)

SBIC's are privately owned investment companies which are licensed and regulated by SBA to provide equity financing and long-term loans to small companies with rapid growth potential. A single SBIC or group of SBIC's finance small firms by purchasing their stock (ownership), by purchasing stock with warrants to purchase additional stock, by purchasing debt securities from the small firm, or by making long-term loans.

To qualify for SBIC financing, a small business must be independently owned, not dominant in its field, have a net worth of less than $6 million and have an after tax average net income of less than $2 million for the preceding two years.

The size of an SBIC loan or equity purchase varies with the size of SBIC assets. No single loan can exceed 20% of the SBIC's capital and surplus. Loan maturities usually range from five to 20 years with interest rates based on current average market yields of comparable U.S. Government obligations. Your VAO will be able to direct you to your nearest SBIC.

State Development Companies (SDC's)

Also known as Business Development Corporations and Development Credit Corporations, SDC's are organized under state law to make equity investments and long-term loans to the small business sector. SDC's borrow funds from the SBA and other members, usually banks, insurance companies, or other financial institutions, and in turn, finance the expansion, growth, and modernization of existing small firms.

Long-term loans have maturities of up to 25 years. Any domestic small business is eligible except those involved with gambling or reinvesting of borrowed funds.

The SBA also provides financing to small businesses through Local Development Companies (LDC) and Certified Development Companies (CDC). Under both of these programs, small businesses can receive long-term loans to acquire fixed assets and capital. If you own an existing company and want to expand or modernize, ask your VAO about the availability of funding through SDC's, LDC's, or CDC's.

Surety Bond Guarantee Program

Small firms sometimes have difficulty in winning commercial contracts for large jobs because of doubts about their ability to meet all contract specifications and schedules. To protect contractors against default by a smaller firm and to enhance small business competitiveness, commercial surety companies bond smaller firms by guaranteeing to pay the contractor if the smaller firm fails to live up to the contract.

In some instances, your surety underwriter might be able to provide you a contract bond under SBA's bond guarantee program. Under this program, SBA guarantees the surety company against any loss sustained on contracts up to $1,000,000. Any business which had average annual sales receipts of $3.5 million or less for the past three years is eligible. There is a fee of $5 per thousand dollars of contract amount charged to the small business by SBA for participation in this program.

For more information contact your local VAO and ask for a copy of Fact Sheet 21 **Surety Bond Guarantee Program.**

Packaging Applications

The SBA does not prepare loan applications for SBA loans. SBA can provide information on how to prepare a loan package for private financing. Look under **Financing Your Business** in this booklet for more information.

Procurement Assistance

The Small Business Act requires that SBA ensure small businesses receive a fair share of Federal contracts and subcontracts.

If you are interested in contracting with the Federal Government or have encountered problems in this area, a VAO can assist you or get answers to many of your questions. For small businesses interested in subcontracting opportunities, ask for a free copy of the **Small Business Subcontracting Directory.**

Sometimes a small business with the low bid for a government contract is rejected because of uncertainty about whether it can fulfill its contractual obligations. That business can apply for an SBA Certificate of Competency. A determination by SBA can overrule the rejection and win the contract.

SBA also has available a Procurement Automated Source System (PASS) program for small businesses interested in procurement opportunities. Under this program, the capabilities of a small business are stored in a computerized data retrieval system and are available to be matched with the needs of a Government agency or a prime contractor. Ask your VAO for a PASS registration form.

Advocacy for Veterans

In its Advocacy program, SBA maintains contact with the small business community, including trade associations, and represents small business interests with other Government Departments and the Congress.

What to Consider Before Going into Business

Before trying to start a business, you should try to answer certain questions. If you cannot answer some of the questions, seek assistance from your banker, lawyer, accountant, or an SBA Veterans Affairs Officer. Ask yourself:

Why do I want to start my own small business? A good answer might be that you have something of value to sell, something there is a market for.

What product or service am I selling? Be specific.

How much money will I need to get started? Usually a new business needs enough money to cover expenses for at least one year. Expenses also include your salary as the owner as well as the repayment of bank or SBA loans.

Who are my customers? Local Chambers of Commerce, banks or universities have marketing data. SBA also can help with marketing analysis through its Small Business Development Center program.

What price will I charge? An accountant can help on pricing. SBA field offices can provide publications on pricing strategy.

What Federal, State, and local tax laws, and registration and zoning requirements must I meet? A lawyer can explain legal requirements. Often States have business information packets available for the asking.

What skills will I need to operate my business successfully? Check with your VAO on SBA training activities.

What skills do I lack and how can I acquire them? Again, check with SBA on the training schedule in your area.

Financing Your Business

Borrowing money is something nearly all business owners do at one time or another. To be a successful loan applicant you will need to convince a lender that you are a reasonable risk. You need to explain how you will use the loan, how much you need to borrow, and how you will repay it.

Generally, business owners borrow to finance a start up, an inventory build up, accounts receivable, the expansion of facilities, or the purchase of another company. But regardless of why you want to borrow, lenders always want to minimize their own risk. They will not lend you money unless you can convince them you are able to repay the loan. Banks do not make grants and SBA's loan program does not make grants. All loans received through SBA must be repaid, and no loan will be approved without showing an ability to repay.

One way lenders reduce their risk is to require borrowers to put some of their own money into the business. In other words, the borrower should have significant equity or "risk" in the business. For example, if you want to purchase land for future expansion, a bank often will make a commercial mortgage loan only after a 20% to 25% (sometimes more) down payment (equity investment) by the owner. The bank then will finance the balance.

Traditional lenders, such as banks, are not the only sources of funding available to small businesses. Newer entrants into the financial field, such as commercial finance companies, venture capital firms, local development companies, and life insurance companies, also should be considered. Ask the VAO at your local SBA office for information about these various funding sources.

There also are alternatives to borrowing. Trade credit, selling stock, and equipment leasing are a few. Leasing, for example, is a method of acquiring capital without going to the bank. The advantage of leasing is that it does not tie up your cash. The disadvantages are that capital will cost you more than the outright purchase cost and that it has no resale or salvage value since you do not own it.

Lending Criteria

What specifically do lenders look for from a prospective borrower? A financial institution's lending policies fall into three general areas: they assess a borrower's personal and business history, they employ a risk reduction program, and they consider potential disqualification factors.

Lenders investigate the:

Personal credit record of the borrower
Financial history of the business
Growth of the business
Profitability of the business
Physical condition of the facilities and equipment
Experience of the key managers

To reduce risk, lenders require some of the following:

An equity pledge by the owner to the lender
A personal assets pledge by the owner to the lender
The cosigning on the loan by all principals or guarantors
A lien on all assets and personal property of the owner(s)

In other words, some form of collateral will be required by a lender. This can include your own personal property.

Factors that might cause a loan application to be turned down include:

Prior business bankruptcy
A bad debt record
Low company earnings
Low value of secured collateral
Management inexperience
Unfavorable liquidity, debt, and profitability ratios
A criminal record

How to Apply for a Loan

Those already in business should:

1. Prepare balance sheets for the past three years listing all assets and all liabilities of the business. Also prepare a projected cash flow sheet for the upcoming year.

2. Have earnings (profit and loss) statements for the past three years. Prepare a detailed listing of key financial ratios including: current ratio, return on investment, debt to equity, inventory turnover, sales to receivables, and the operating ratio.

3. Prepare a current personal financial statement of the owner or each partner or stockholder owning 20 percent or more of the corporate stock in the business.

4. List collateral to be offered as security for the loan, with an estimate of the present market value of each item.

5. State the amount of the loan requested and the exact purposes for which it can be used.

6. Take this material to your banker. Ask for a direct bank loan and if you are declined, ask the bank to make the loan under SBA's Loan Guarantee Plan or Immediate Participation Plan. If the bank is interested in an SBA guaranteed or participation loan, ask the banker to contact SBA's Veterans Affairs Officer or Loan Officer for discussion of your application. In most cases of guaranteed or participation loans, SBA will deal directly with the bank.

7. If a guaranteed or a participation loan is not available, obtain a letter of decline (two letters in cities of 200,000 or more) and write or visit the VAO at the nearest SBA office. SBA has 110 field offices which often send loan officers to visit many smaller cities as needed. To speed matters, make your financial information available when you first write or visit SBA.

Those wanting to start a business should:

1. Describe the type of business you plan to establish. Give the name of the firm, its location, its product, its facilities, its legal structure, and its business goals.

2. Describe your experience and management capabilities. If there are other key personnel, give their backgrounds also.

3. Prepare an estimate of how much you or others have to invest in the business and how much you will need to borrow. Explain how the loan will be used and how you plan to repay it.

4. Prepare a current balance sheet listing all personal assets and all liabilities.

5. Prepare a detailed projection of earnings (profit and loss statement) for the first year the business will operate. Explain on what these projections are based: what your market is, what price you will charge, what volume you will do, how you will distribute your product, and what your competition is.

6. List collateral to be offered as security for the loan, indicating your estimate of the present market value of each item.

7. Follow steps 6 and 7 for those already in business.

A Final Word

If you have any questions about SBA veterans' or other programs, contact your local VAO. The VAO is there to help you.